Topic: Metrics Needed to Measure the Swaps Market

The Dodd-Frank Act introduced a requirement that derivatives trades be reported to centralized data warehouses called swap data repositories (SDRs). This requirement holds the promise of giving regulators and market participants better insight into exposures and risks throughout the financial system.

Unfortunately, data collected in SDRs are fragmented and inconsistent. Data are reported differently across repositories — even within the United States — so data are difficult to add up and compare. These problems are even more pronounced across jurisdictions.

The OFR is working with the Commodity Futures Trading Commission (CFTC) to address data quality issues, including the inconsistent application of data standards. (The CFTC publishes a weekly swaps report that is highly aggregated and provides snapshots of Gross Notional Outstanding, Transaction Dollar Volume, Transaction Ticket Volume, and an Archive.)

We still need to identify and define in detail the types of swaps data analysis that will be most useful. For example, we recognize that the data in SDRs (known outside the U.S. as Trade Repositories) need to be aggregated to provide insight into the market.

Data harmonization is paramount because the data originate from a wide range of market participants, in a variety of formats, and through different communication channels. Consistent use of industry standards for data submitted to the repositories and transmitted to the aggregation mechanism will be essential. Using standardized data, analysis and metrics can present a clear picture of the market and areas of potential risk.

To specify the types of analyses required and the best metrics to support those analyses, we are asking the Committee to provide advice on the following questions:

Transparency and risk measures for derivatives markets

1. What types of reports would help bring transparency to the swaps market?

2. What metrics (e.g., volume, position) are needed as the building blocks to measuring threats to financial stability that could arise in derivatives markets? Are the data to calculate these metrics available?

3. What additional suggestions do you have for helping to identify valuable analytical metrics for measuring risks — counterparty, concentration, operational, contagion?

4. In what ways could measurement of threats to financial stability be improved by developing unified swaps reporting across jurisdictions (e.g., by CFTC and the European Securities and Markets Authority [ESMA])?

5. Are reports and measures of derivatives risks being generated today from public data that could be augmented with CFTC data to provide greater insight?

Data quality and standards

6. Are there industry standards for swaps data that should be used to calculate these reports and metrics? If so, what standards do you recommend?

7. If global swaps data aggregation and reporting were implemented, what is the right governance model for each? What types of reports and metrics would you recommend be applied to differentiate local versus cross-jurisdiction reporting with such models?

8. Currently, ESMA rules require the collection of data on collateral, while CFTC rules do not. How can these data be capture for the U.S. market?

9. What suggestions do you have for working with SDRs (individually and collectively) to aggregate report metrics for a clearer understanding of market size, volume trends, pricing, shifts in asset-class trading, asset allocation, trading practices, etc.?

10. Over the last five to 10 years, the industry has spent considerable effort to standardize how counterparty risk affects the value of bilateral contractual exposures. As over-the-counter markets move toward central clearing, how should clearinghouses best measure the contractual exposures they are clearing?